

What return actually means

Lesson: zerotoinvest.com/en/lesson/return/

Name _____

Date _____

EXERCISE 1

You invest \$1,000. Year 1 minus 30 percent, year 2 plus 30 percent. Where do you stand?

Your answer

EXERCISE 2

An investment returned 60 percent in total over eight years. How much is that per year?

Your answer

EXERCISE 3

Three years: plus 20, minus 10, plus 5 percent. What are the simple average and the actual annual return?

Your answer

EXERCISE 4

A fund returns 7 percent before costs, costs 1.5 percent a year, inflation is 2 percent. Roughly what is left in real terms after costs?

Your answer

Tip: the calculators on zerotoinvest.com help you check your answers.

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Solutions: What return actually means

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Exercise 1. $\$1,000 \times 0.7 \times 1.3 = \$910$. The simple average of zero is misleading.

Exercise 2. $1.6^{1/8} - 1 = 6.05$ percent per year.

Exercise 3. Simple average: $(20 - 10 + 5) \div 3 = 5$ percent. Actual: $(1.2 \times 0.9 \times 1.05)^{1/3} - 1 = 4.28$ percent.

Exercise 4. After costs 5.5 percent. Real: $1.055 \div 1.02 - 1 = 3.43$ percent.

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